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FROM AMBASSADOR BAXTER TO REPRESENTATIVE COLLIN PETERSON
H FOR LYNN SHANE AND TYREA LONON
WHA/BSC FOR CAROLINE CROFT

E.O. 12958: N/A
TAGS: [OREP](#) [AMGT](#) [ASEC](#) [AFIN](#) [UY](#)
SUBJECT: URUGUAY: SCENESETTER FOR CODEL PETERSON'S SEPT 6-8
VISIT

REF: STATE 91300

¶1. This telegram is sensitive but unclassified, and not for Internet distribution.

SUMMARY

¶2. (SBU) Your visit on September 6-8 comes at a time of strong and growing engagement between the U.S. and Uruguay. President Vazquez steers a moderate course that includes active efforts to expand commercial ties with the USG. As Uruguayans look ahead to the 2009 Presidential and legislative elections, we expect the GOU to seek to ensure that moderate legacy while simultaneously shore up its political base. End Summary.

POLITICAL SITUATION

¶3. (U) Uruguay is a stable democratic nation of 3.3 million people, almost half of them residing in its capital, Montevideo. Once known as "the Switzerland of South America," it was one of Latin America's wealthiest and most egalitarian countries. A four-year recession, which ended in 2003, cut personal income nearly in half and lowered Uruguay's historically excellent socio-economic indicators. Uruguay's economy has been recovering well over the past three years, with GDP growth of seven percent in 2007, in large part thanks to continued orthodox economic policies. Today, GDP per capita is approaching \$7,000, and the GOU repaid its entire IMF debt early in the past year. However, job creation is not keeping up with expectations, and many young people emigrate to seek their fortunes abroad.

¶4. (SBU) With Tabare Vazquez heading the ticket, the left-leaning Frente Amplio (FA) party won the presidency and the majority in the legislature for the first time in October 2004, narrowly beating out the more traditional Colorado and Nationalist parties. President Vazquez steers a moderate course that balances prudent macroeconomic policies with expansion of social programs, especially in the areas of health and education.

¶5. (SBU) With national elections in October 2009, the Vasquez administration is coming into the home stretch. The President has successfully completed much of his agenda, and seeks to ensure his legacy as well as position his party for the 2009 elections. A March 2008 cabinet shake up eased out ideologues, put in technocrats, and put a new emphasis on foreign policy. Relations with the U.S. are cordial and

productive, but election-year politics are likely to limit the profile of our cooperation over the next year.

¶6. (SBU) Many Uruguayans were traumatized by the 1973-85 period of military dictatorship, when security forces committed serious human rights violations in their campaign against violent insurgents and their sympathizers. Some people blame the U.S. for indirectly supporting the region's military governments during the Cold War. Slick propaganda and declassified U.S. documents from the period are frequently touted by our detractors as "proof" of our involvement. The complex history of the dictatorship created heroes and villains for both the left and right. Some of the persons involved -- including former Tupamaro guerrillas -- are still active in politics today. The real and imagined lessons from the dictatorship period continue to shape modern politics, including the Uruguayans' perceptions of the U.S., especially where the global war on terrorism, Iraq, Afghanistan and Guantanamo are concerned.

The Economy, Trade and Investment

¶7. (U) Outgoing Economy Minister Astori has pursued orthodox macro-economic policies to control inflation (6.4% in 2006) and promote growth and investment. The result has been sustained strong growth, with Uruguay maintaining a 7% growth rate over the past two years. The GOU paid off its debt to the IMF ahead of schedule and has regularly issued bonds at favorable terms in the international financial markets, lowering its debt service costs. The debt to GDP ratio was down to 67% at the end of 2007, from over 101% in 2004.

Unemployment is now in the single digits for the first time in six years. The country risk stood at 277 basis points as of late July. Uruguay is now better positioned to handle external shocks than it was during the economic crisis of 2001-2002, but challenges remain with the weakened dollar, political volatility in Argentina, and high oil prices.

¶8. (SBU) Uruguay is a major agricultural producer relative to its size. Agriculture and agro-industry account for 23% of GDP and over 75% of total exports. Major exports are meat (over \$1 billion in 2006 and \$885 million in 2007), long-grain rice, dairy products, wool and soybeans. Uruguay does not import agricultural products but does import processed foodstuffs. Uruguay applies a 6.6% average tariff on imported agricultural goods and does not impose any kind of import quota.

¶9. (U) Biofuels represent an emerging area of interest for Uruguay and for potential cooperation with the U.S. Uruguay is working to develop ethanol from sweet sorghum, sunflower, soy, and sugarcane in the near term to comply with a recently passed law that requires state petroleum company ANCAP to incorporate five percent ethanol into gas (by 2014) and five percent bio-diesel into diesel (by 2012). ANCAP has already established a plant -- in association with Venezuela -- to produce ethanol and electricity from sugarcane. ANCAP also plans to build a bio-diesel plant fueled by soy or sweet sorghum. ANCAP's president and other high level Uruguayan officials traveled to the U.S. in 2007 with Ambassador Baxter to visit several institutions related to biofuels.

¶10. (U) ANCAP is interested in working with the U.S., especially in the area of using biomass such as forestry waste or woodchips to add value to its rapidly growing forestry industry. ANCAP and other GOU elements hope biofuels will one day generate a significant percentage of Uruguay's fuel needs, with similarly high percentages of Uruguay's electrical generation coming from biomass. Weyerhaeuser is one of the largest companies in Uruguay's forestry sector, and a leader in exploring ways to produce biofuels from its forestry byproducts.

¶11. (SBU) Uruguay's National Institute for Agricultural Research (INIA) is looking to cooperate with a number of U.S.

universities on biofuels, most notably with Texas A&M, the University of Georgia, and North Carolina State. Texas A&M has one of the world's most important sweet sorghum breeding programs, and is evaluating the suitability of Texas A&M genotypes for Uruguay. Texas A&M is also considering having Uruguayan research stations help its breeding program to advance generations. INIA hopes to work with North Carolina State's Worldwide Knowledge Center for the Development of Second Generation Biofuels.

¶12. (SBU) Given the importance of the agricultural sector for the economy, Uruguay has been active in bilateral and multilateral fora to push for trade liberalization, and U.S. agricultural subsidies are a hot topic. Uruguay played a useful and constructive role during the last Doha Round meetings in Geneva in July. The Uruguayan delegation was particularly vocal about the need for developing countries to offer improved market access, and pressed home that point at every opportunity during informal meetings that took place daily during that ministerial. GOU officials have commented to us that they believe Mercosur to have been negatively affected by Argentina's position in that forum.

¶13. (SBU) In 2006, Uruguay and the U.S. started a dialogue on a Trade and Investment Framework Agreement (TIFA), which was signed in January 2007. The sanitary and phytosanitary working group has focused on particular barriers to trade, resulting in the opening of the Uruguayan market to U.S. turkey and the U.S. blueberry market to Uruguayan producers. Work on citrus, deboned lamb and U.S. beef is ongoing, as are discussions on ecommerce, the environment, and trade facilitation is also ongoing. The USG and the GOU signed a Science and Technology (S&T) cooperation agreement in April. Uruguay's current level of development, education, and infrastructure present an excellent opportunity for cooperation with the USG on S&T issues. The agreement strengthens the bilateral relationship in the spirit of deepening economic ties between the two nations.

¶14. (SBU) Bilateral Agricultural Issues:

-- Beef: Uruguay suffered an outbreak of foot-and-mouth

disease in 2001, but prompt reporting and solid controls led APHIS to reopen the U.S. market to Uruguayan beef in 2003. The U.S. was Uruguay's main beef export market by 2004, but Uruguayan beef exports to the U.S. have declined since that year, as beef prices in the EU have risen and Uruguayan exporters began to concentrate on that market. Uruguay closed its market to U.S. beef in 2003 due to Bovine Spongiform Encephelopathy (BSE), but has since reopened for U.S. genetics (bovine semen and embryos). We continue to press for Uruguay to resume imports of U.S. beef.

-- Citrus: Uruguayan citrus producers have requested a pest risk assessment. APHIS expects to conduct such an assessment by the end of September.

-- Poultry: Uruguay banned all imports of poultry from the U.S. in 2003, citing the threat of Newcastle disease (Note: the ban on U.S. turkey was subsequently lifted in 2007). We continue to work toward a broader re-opening of this market.

----- Foreign Policy -----

¶15. (SBU) The March 1, 2008 replacement of Foreign Minister Gargano with the President's close advisor Gonzalo Fernandez has strengthened opportunities for improved U.S.-Uruguayan relations. Uruguay is also working to reestablish its traditional role in international institutions. Uruguay is the largest contributor to peacekeeping missions in the world, on a per capita basis, and currently has substantial deployments in Haiti and the Congo. Uruguay is seeking to expand economic ties outside of Mercosur to the rest of South America and beyond, in part to reduce its reliance on sometimes volatile neighbors. Uruguay played a moderating

role in the Colombia-Ecuador-Venezuela dispute. Chilean President Michelle Bachelet's July visit demonstrated the countries' close relations and the desire to strengthen partnerships.

¶16. (SBU) Uruguay receives assistance from Venezuela in the form of subsidized oil, but chooses to stay relatively quiet on Venezuelan issues. Venezuelan FM Nicolas Maduro visited Montevideo in August, and the GOU downplayed the significance of the trip. President Vasquez visited Cuba in June; Cuba sends many doctors to work in Uruguayan hospitals, a fact praised by supporters of the Castro regime but controversial to others as issues such as medical accreditation and safety have been raised. Iran maintains an active commercial section at its embassy, with Uruguay exporting a significant amount of high-quality rice to Iran.

¶17. (SBU) Relations with Argentina (and by extension Mercosur) have been frosty, mainly as a result of a two-year dispute with Argentina over a paper pulp mill on the Uruguayan side of the Uruguay River. The USD 1.2 billion mill, owned by Finnish Botnia, employs 2,500 persons at the plant or in related industries and significantly boosts Uruguayan GDP. The plant began production in November 2007 and boasts the highest level of pulp production in the world and the latest environmental protection technology. Argentina sued Uruguay in the International Court of Justice (ICJ) in 2006 (a verdict is expected around the end of 2008) and Argentine protesters have blockaded bridges between the two countries for more than two-years. The GOA and the protesters claim that the mill environmentally damages the Uruguay River which borders both countries; Uruguay and Botnia are confident the court will rule otherwise.
Baxter